INDAKA MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 June 2012

Annual Financial Statements

for

INDAKA LOCAL MUNICIPALITY

for the year ended 30 June: ***2012***

Province:	KwaZulu Natal
AFS rounding:	**R (i.e. only cents)**

Contact Information:	
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Name of Chief Financial Officer:	Vacant
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Name of contact at provincial treasury:	
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INDAKA LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
fot the year ended 30 June 2012

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INDAKA LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2012

Approval of Annual Financial Statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 6 to 58, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 20 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Municipal Manager

DATE 31 August 2012

General information

Members of the Council

Cllr. Mchunu NB	**Mayor**
Cllr. Mabele PBM	**Speaker**
Cllr. Njapha TB	**Deputy Mayor**
Cllr. Nzuza PM	Member of the Executive Committee
Cllr. Ngubane M	Member of the Executive Committee
Cllr. Mabele ZV	Member
Cllr. Twala JS	Member
Cllr. Ndlovu SV	Member
Cllr. Mbatha ME	Member
Cllr. Mbele NG	Member
Cllr. Majola BC	Member
Cllr. Kheswa MA	Member
Cllr. Madondo M	Member
Cllr. Banda SM	Member
Cllr. Shezi TBM	Member
Cllr. Zikalala NL	Member
Cllr. Mvelase SN	Member
Cllr. Kunene MJ	Member
Cllr. Madonsela HL	Member
Cllr. Zikalala SJ	Member

Municipal Manager

Mr K.S Khumalo

Chief Financial Officer

Vacant

Grading of Local Authority

Grade 2

Auditors

Office of the Auditor-General

Bankers

Standard Bank - Ladysmith
Account Number 60157259

General information (continued)

Registered Office:	INDAKA LOCAL MUNICIPALITY
Physical address:	2748"F" Section Ekuvukeni Wasbank 2920
Postal address:	**Private Bag X70113** Wasbank 2920
Telephone number:	034 261 1000
Fax number:	034 261 2035
E-mail address:	

INDAKA MUNICIPALITY
STATEMENT OF FINANCIAL POSITION
as at 30 June 2012

	Note	2012 R	RESTATED 2011 R
ASSETS			
Non-current assets		**60,771,599**	**40,799,168**
Property, plant and equipment	8	60,500,651	40,522,235
Investment properies	9	253,866	276,933
Intangible assets	10	17,082	-
Current assets		**31,911,845**	**8,466,360**
Inventory	13	53,543	118,499
Receivables from exchange transactions-consumers	14	244,412	19,149
Receivables from non-exchange transactions-other	15	286,919	1,290,392
Value added taxation receivable	7	2,082,386	1,402,640
Call investment deposits	11	26,302,687	5,634,680
Bank balances and cash	12	2,941,897	1,000
Total Assets		**92,683,443**	**49,265,528**
LIABILITIES			
Non-current liabilities		**4,124,244**	**3,914,071**
Long-term liabilities	2	3,835,264	3,789,879
Non-current lease Liability	25	288,980	124,192
Current liabilities		**17,498,764**	**15,732,024**
Provisions	4	750,000	250,000
Trade and other payables from exchange transactions.	5	8,020,037	2,777,551
Current portion of long-term liabilities.	2	160,721	358,622
Current portion of lease liability.	25	275,055	682,985
Overdraft Bank balances.		-	4,269,044
Unspent conditional grants and receipts	6	8,292,952	7,393,822
Total liabilities		**21,623,008**	**19,646,095**
Total Assets and Liabilities		**71,060,435**	**29,619,433**
NET ASSETS			
Total Net Assets			
Housing operating account	1	653,472	-
Accumulated surplus		70,406,963	29,619,433
Total Net Assets		**71,060,435**	**29,619,433**

Bank 2 941 897
Unspent Grants (8 292 957)
Trade & Other payables (8 020 037)
Net cash position (13 371 092)

INDAKA LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
for the year ending 30 June 2012

	Note	2012	RESTATED 2,011
		R	R
Revenue			
Property rates	16	841,435	-
Service charges	17	168,138	139,655
Rental of facilities and equipment	26	82,636	45,586
Interest earned - external investments	27	937,706	250,284
Government grants and subsidies	18	77,920,633	59,216,256
Other income	28	118,970	275,653
Total revenue		**80,069,518**	**59,927,434**
		(21 125 081 7 / 5894 437)	
Expenses			
Employee related costs	19	9,924,316	10,930,296
Remuneration of councillors	20	4,582,536	3,574,212
Depreciation and amortisation expense	29	3,351,190	3,662,443
Repairs and maintenance		737,026	4,132,796
Finance costs	21	326,624	1,083,650
Contracted services	22	4,867,495	5,295,437
Grant Expenditure	23	5,689,302	16,148,739
General expenses	24	10,159,283	17,151,397
Total expenses		**39,637,772**	**61,978,971**
		(19 306 665)	
Surplus / (deficit) for the period		**40,431,746**	**(2,051,537)**

INDAKA LOCAL MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS
as at 30 June 2012

	Note	Housing Operating Account	Accumulated Surplus/(Deficit)	Total: Net Assets
		R	R	R
2009				
Balance at 30 June 2009			**26,398,105**	26,398,105
Correction of prior period error		-	(5,603,543)	(5,603,543)
Restated balance 1July 2009		-	**20,794,562**	**20,794,562**
Prior Year Errors			**122,457**	
Corrections Prior Year Errors 2007/2008	33.1.1		143,287	143,287
Corrections Prior Year Errors 2008/2009	33.1.2		(20,830)	(20,830)
Restated balance 1 July 2009		-	**20,917,019**	**20,917,019**
2010				
Restated surplus at 1July 2010			**12,221,408**	
Surplus at 30 June 2010- Previously reported			13,705,824	13,705,824
Corrections Prior Year Errors 2009/2010	33.1.3		(1,484,416)	(1,484,416)
Balance at 30 June 2 2010		-	**33,138,427**	**33,138,427**
2011	33.1.4			
Restated surplus at 1July 2011			**(3,518,994)**	
Surplus at 30 June 2011- Previously reported			(120,187)	(120,187)
General Expenditure			(908,057)	(908,057)
Repairs & Maintenance			(93,104)	(93,104)
Depreciation			(345,011)	(345,011)
Finance Costs			(507,651)	(507,651)
Interest Earned			(63,109)	(63,109)
Employee Related Costs.			(14,963)	(14,963)
Income			545	545
Repayment Grants			(2,685,282)	(2,685,282)
Fixed Assets			841,706	841,706
Trade and Other Payables from Exchange Transactions			596,626	596,626
Changes in Leased Liabilities			(220,508)	(220,508)
Balance at 30 June 2 2011		-	**29,619,433**	**29,619,433**
2012				
Net Surplus for the year			40,431,746	40,431,746
Transfer to Housing Operating Account	1	653,472		653,472
Transfer to/(from) Appropriations for 2011/2012			355,785	355,785
Balance at 30 June 2012		**653,472**	**70,406,963**	**71,060,435**

INDAKA LOCAL MUNICIPALITY
CASH FLOW STATEMENT
as at 30 June 2012

	Note	2012 R	RESTATED 2011 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Cash receipts from rate payers and Government		80,809,151	62,669,291
Cash paid to suppliers and employees		(29,823,005)	(66,281,729)
	30	**50,986,146**	**(3,612,438)**
Interest Received	27	937,706	250,284
Interest Paid.	21	(326,624)	(1,083,650)
Net cash flows from operating activities		**51,597,228**	**(4,445,804)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets	"8-10	(23,323,620)	1,065,605
Proceeds from sale of fixed assets			
Proceeds from sale of investments			
Purchase of foreign currency securities			
Net cash flows from investing activities		**(23,323,620)**	**1,065,605**
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in long term liability	2	(152,516)	(605,076)
Repayment of finance lease liability	25	(243,143)	(1,244,358)
Net cash flows from financing activities		**(395,659)**	**(1,849,434)**
		27,877,949	(5,229,633)
Net increase / (decrease) in net cash and cash equivalents		27,877,949	(5,229,634)
Net cash and cash equivalents at beginning of period		1,366,635	6,596,269
Net cash and cash equivalents at end of period	"11-12	**29,244,584**	**1,366,635**

INDAKA LOCAL MUNICIPALITY
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

1 BASIS OF PRESENTATION

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention.

The Annual Financial Statements have been prepared in accordance with South African Standards of Generally Recognised Accounting Practices (GRAP) as prescribed by the Minister of Finance in terms of Government Gazette number 31021, Notice Number 516, dated 9 May 2008 and also in terms of the standards and principles contained in Directive 3 and 5 issued by the Accounting Standards Board ("ASB ") in February 2010.

1.1 **Changes in accounting policy and comparability**

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2011 and 30 June 2012 the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only if the following instances:

a) is required by a Standard of GRAP; or

b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

1.2 **Critical judgments, estimations and assumptions**

The following are the critical judgments, apart from those involving estimations, that the management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

1.2.1 **Revenue Recognition**

Accounting Policy 10.2 on Revenue from Exchange Transactions and Accounting Policy 10.3 on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GAMAP 9: Revenue, as far as Revenue from Non-Exchange Transactions is concerned (see Basis of Preparation above) . In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.2.2 **Financial assets and liabilities**

The classification of financial assets and liabilities into categories, is based on judgement by management.

1.2.3 **Impairment of Financial Assets**

Accounting Policy 4.4 on Impairment of Financial Assets describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of impairment,the management of the municipality considered the detailed creteria f impairment of financial assets as set outin IAS 39: Fiancial Instruments- Recognition and Measurement. The management of the municipality is satisfied that the impairment of financial assets recorded during the year, is appropriate.

1.2.4 **Useful lives of Property, Plant and Equipment ("PPE")**

As described in Accounting Policies 3.3, 4 & 5, the municipality depreciates/amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

1.3 Presentation currency

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency.

1.4 Going concern assumption

The Annual Financial Statements have been prepared on a going concern basis.

1.5 Offsetting

Assets, liabilities, revenues and expenses have not been offset, except when offsetting is required or permitted by a Standard of GRAP.

1.6 Standards, amendments to standards and interpretations issued but not yet effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality

GRAP 18 Segment Reporting - issued March 2005
GRAP 21 Impairment of Non-cash-generating Assets - issued March 2009
GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008
GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
GRAP 25 Employee Benefits - issued December 2009
GRAP 26 Impairment of Cash-generating Assets - issued March 2009
GRAP 103 Heritage Assets - issued July 2008
GRAP 104 Financial Instruments - October 2009

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available

The following standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted by the municipality.

IAS 36 Impairment of assets- amended version effective 1 January 2010
IAS 39 Financial Instruments: Recognition and Measurement - amended version effective 1 January 2010.

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

2 HOUSING OPERATING ACCOUNT

Sections 15(5) and 16 of the Housing Act, (Act No. 107 of 1997), which came into operation on 1 April 1998, requiredthat the Entity maintain a separate housing operating account. This legislated separate operating account is known as the Housing Development Fund.

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

The following provisions are set for the creation and utilisation of the Housing Development Fund:

- The Housing Development Fund is cash-backed, and invested in accordance with the investment policy of the Entity.
- The proceeds in this fund are utilised for housing development in accordance with the National Housing Policy, and also for housing development projects approved by the MEC for Human Settlements.
- Any contributions to or from the fund are shown as transfers in the Statement of Changes in Net Assets.
- Interest earned on the investments of the fund is disclosed as interest earned in the Statement of Financial Performance

3 PROPERTY, PLANT AND EQUIPMENT

3.1 Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost, where applicable, also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

3.2 Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequently all property plant and equipment, are measured at cost (which includes deemed cost for previously unrecognised assets), less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

3.3 Depreciation

Land is not depreciated as it is regarded as having an indefinite life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives, are depreciated separately. The depreciation rates are based on the following estimated useful lives.

Infrastructure		**Other**	
Roads and Paving	15	Buildings	30
Electricity	25	Graders and Tractors	15
Water	20	Motor vehicles	5
Sewerage	20	Office equipment	7
		Furniture and fittings	7
Community		Miscellaneous	7
Buildings	30	Computer equipment	5
Recreational Facilities	30		
Halls	30		
Libraries	30		
Other assets	30		
Finance lease assets			
Office equipment	3		
Other assets	5		

The assts residual values, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

3.4 Incomplete Construction Work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

3.5 Finance Leases

Assets capitalized under finance leases are depreciated over their expected usefull lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease is no reasonablecertainty that the municipality will obtain ownership by the end of the lease term.

3.6 Heritage Assets

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to uncertainty regarding their estimated useful lives.

3.7 Land

Land is not depreciated as it is deemed to have an indefinite useful life.

3.8 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation . Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

3.9 Derecognition of property, plant and equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not included in revenue.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation) and the sales proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

4.0 Impairment of assets

4.1 Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exist, the municipality estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less sots to sell and its value in use.

If the recoverable aount of an asset is less tha its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortization is recognized immediately in surplus of deficit.

An impairment loss is recognized for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impariment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

* to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impariment loss recognized in prior periond for assest may no longer exist or my have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no ompairment loss been recognized for the asset in prior periods.

A reersal of an impairment loss of assets carried at cost less accumulated depreciation or amortization is recognized immediately in surplus of deficit.

4.2 Impairment of non-cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exist, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asst may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, therecoverable service amount of the cash-generating unitto which the asset belongs is determined.

The recoverable service amount of an asset or a non-cash-generating unit is the higher of its fair value less costs to sell and its value use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount . That reduction is an impariment loss.

An impariment loss of assets carried at cost less any accumulated depreciation or amortization is recognized immediately in surplus or deficit.

An impairment loss is recognized for non-cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

* to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication than an impairment loss recognized in prior periods for assets may no longer exist or may have decreased. If any such indication exist, the recoverable sercive amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have determined had no impairment loss been recognized for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortization is recognized immediately in surplus of deficit.

5 INTANGIBLE ASSETS

5.1 Initial Recognition

Identifiable non–monetary assets without physical substance which are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitlised. Research expenditure is recognised as an expense when incurred.

5.2 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

5.3 Transitional Provisions

Costs incurred on intangible assets (other than on computer software, websites and the valuation roll) were expensed and not capitalised in the previous financial year as required by IAS 38 as this requirement was exempted in terms of General Notice 522 of 2007. The municipality accounted for all costs incurred that meet the intangible asset definition and recognition requirements as intangible assets for the financial years ended 30 June 2010 and 30 June 2011 (where practicable) in accordance with the requirements of GRAP 102, GRAP 3 and ASB Directive 3.

6 INVESTMENT PROPERTY

6.1 Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

6.2 Subsequent Measurement - Cost Model

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

7 FINANCIAL INSTRUMENTS

The municipality has various types of financial instruments and these can be broadly categorised as either Financial Assets or Financial Liabilities.

7.1 Financial Assets - Classification

A financial asset is any asset consisting of cash or a contractual right to receive cash. The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Investments in Fixed Deposits (Banking Institutions, etc)
- Long-term Receivables
- Consumer Debtors
- Certain Other Debtors (see note 17)
- Short-term Investment Deposits
- Bank Balances and Cash

In accordance with IAS 39.09, the *Financial Assets* of the municipality are classified as follows into the four categories allowed by this standard:

Type of Financial Asset Classification in terms of IAS 39.09

Short-term Investment Deposits – Call Held-to-maturity investments

Bank Balances and Cash Available for sale investments

Long-term Receivables Loans and receivables

Consumer Debtors Loans and receivables

Other Debtors Loans and receivables

Investments in Fixed Deposits Held-to-maturity investments

Financial assets at fair value through profit or loss are financial assets that meet either of the following conditions:

- they are classified as held for trading; or
- upon initial recognition they are designated as at fair value through the Statement of Financial

Performance.

Available for sale investments are financial assets that are designated as available for sale or are not classified as:

- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial Assets at fair value through the Statement of Financial Performance.

Loans and Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets.

Held-to-Maturity Investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

7.2 Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of

Financial Position or in the notes thereto:

- Long-term Liabilities
- Certain Other Creditors (see note 7)
- Bank Overdraft
- Short-term loans
- Current Portion of Long-term Liabilities
- Consumer Deposits

There are two main categories of *Financial Liabilities*, the classification determining how they are measured. Financial liabilities may be measured as:

- Fair value through profit or loss; or
- Other financial liabilities.

Any other financial liabilities are classified as "Other financial liabilities" and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest

In accordance with IAS 39.09 the *Financial Liabilities* of the municipality are all classified as "Other financial liabilities".

7.3 Initial and Subsequent Measurement

7.3.1 Financial Assets:

Held-to-maturity Investments and *Loans and Receivables* are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

Financial Assets at *Fair Value* and *Available-for-Sale* are initially and subsequently, at the end of each financial year, measured at fair value with the profit or loss being recognised in the Statement of Financial Performance.

Financial assets are recognized on the date they originated for loans and receibales and deposits and for other financial assets, initially on the trade at which the municipality becomes a party to the contractual provisions of the instrument.

7.3.2 Financial Liabilities:

Other financial liabilities are subsequently mesured at amortized cost using the effective interest method, with interest expence recognized on an effective yield basis.

Financial liabilities are recognized on the trade date at which the municipality becomes a party to the contractual provisions of the instrument.

7.3.3 Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Consumer Debtors are stated at cost less a provision for bad debts. The provision is made in accordance with IAS 39.64 whereby the recoverability of Consumer Debtors is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receiveables , where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written of against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the Statement of Financial Performance

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related ojectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the intruments at the date the impairment is reversed does not exceed what the amortized cost would have been had the impariment not been recognized.

7.4 Derecognition of Financial Assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

7.5 Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

8 RISK MANAGEMENT OF FINANCIAL ASSETS AND LIABILITIES

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

Risks and exposure are disclosed as follows:

8.1 Credit Risk

- Each class of financial instrument is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.
- Financial instruments covered by collateral are specified.

8.2 Liquidity Risk

A maturity analysis for financial assets and liabilities that shows the remaining contractual maturities.

- Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

- A Maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in the notes to the annual fianancial statements.

8.3 Interest Risk

Interes rate risk originates from the uncertainty about the fair value or future cash flows of a financial instrument which fluctuate because of changes in market interest rates.

- Borrowings issued at variable retes expose the municipality to cash flow interest rate risk
- Borrowings issued at fixed rates expose the municipality to fair value interest rate risk

Management has assessed the impact of interest rate risk on the operations of the municiplaity and considers the risk to be negligible.

8.4 Market Risk

Market risk is the risk that changes in market pricesm such as foreign exchange rates, interest rate and equity prices will affect the municipalities income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

9 INVENTORIES

9.1 Initial Recognition

Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition.

9.2 Subsequent Measurement

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

10 NON-CURRENT ASSETS HELD-FOR-SALE

10.1 Initial Recognition

Non-current Assets and Disposal Groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Council must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

10.2 Subsequent Measurement

Non-current Assets (and disposal Groups) classified as held-for-sale are mesured at the lower of carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortized) while it is classified as held for sale, or while it is part of a disposal group classified as helf for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognized in surplus of deficit

11 REVENUE RECOGNITION

11.1 General

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non- exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

11.2 Revenue from Exchange Transactions

11.2.1 Service Charges

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined , and are levied monthly based on each property.

11.2.2 Finance income

Interest earned on investments is recognized in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment

11.2.3 Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff.

11.2.4 Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognized on a straight-line basis over the term of the lease agreement, where such lease periods span over more than one financial year

11.3 Revenue from Non-exchange Transactions

11.3.1 Property rates

Revenue from property rates is recognised when the legal entitlement to this revenue arises. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

With effect 1 July 2011 property rates are no longer assessed as this only applied to DMA's

11.3.2 Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

11.3.3 Revenue from Recovery of Unauthorized, Irregular, Fruitless and Wasteful Expenditure

Such revenue is based on legislated procedures. Legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

12 GOVERNMENT GRANTS AND RECEIPTS

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the Statement of Financial Performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interset it is recognized as interest earned in the Statement of Financial Performance.

13 PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

14 EMPLOYEE BENEFITS

14.1 Short-term Employee Benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

14.2 Defined Contribution Plans

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

14.3 Defined Benefit Plans

A defined benefit plan is a post- employment benefit plan other than a defined contribution plan.

14.3.1 Pension obligations

The municipality and its employees contribute to 4 different pension funds, namely Natal Joint Municipal Pension Fund and South African Local Authority Pension Fund. The defined benefit fund was last actuarially valued during the reporting period ending 30 June 2009.

The KZN Municipal Pension Fund is a defined contribution fund. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Natal Joint Superannuation & Retirement Funds and Government Employee Pension Fund are defined benefit funds. The Natal Joint Provident Fund and South African Local Authority Pension Fund are defined contribution funds.

The schemes are funded through payments to fund administrator or trustee-administered funds, determined by periodic actuarial calculations. The Municipality has both defined benefit and defined contribution plans.

Defined benefit plans have been accounted for as defined contribution plans in accordance with the requirements on multi-employer plans where sufficient information is not available to account for such plans as defined benefit plans. As the fund administrators do not have sufficient information available to allocate the shortfall on liabilities to individual employers, no liability is recognised for any shortfall of fund asset as compared to fund liabilities. Any surcharges that may be levied by the fund from time to time in order to compensate for shortfalls, are recognised as expenses in the period in which they become payable to the fund. As surcharges are advised long in advance, based on actuarial valuations of the fund as a whole, the necessary provision for the payment hereof is made in the course of the municipality's normal budgeting processes."

For defined contribution plans, the Municipality pays contributions to fund administrators. The Municipality has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

15 LEASES

15.1 The Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Lease payments are allocatd between the lease finance cost and the capital repayment using the effective interest rate method. Lease fianance costs are expensed when incurred

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised as an expense in the statement of financial performance on a straight-line basis over the term of the relevant lease.

16 BORROWING COSTS

Borrowing costs incurred relating to qualifying assets and all other borrowing costs incurred were recognised as expenses in the Statement of Financial Performance in the previous financial year. The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qulaifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised as an expense in the Statement of Financial Performance for the financial year ending 30 June 2009 in accordance with the requirements of GRAP 5 and ASB Directive 3.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired acquired cannot be adequately established - the municipality expenses borrowing costs when it is inappopriate to capitalize it.
The municipality ceases the capitalization of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.

17 VALUE ADDED TAX

The Municipality accounts for Value Added Tax on the payments basis.

18 CASH AND CASH EQUIVALENTS

Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

19 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

20 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

21 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

22 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of Errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

23 RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

24 EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

25 COMPARATIVE INFORMATION

25.1 Prior year comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

26 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.